MARKET ANALYSIS OF SECURITIES OF REITS AND REAL ESTATE COMPANIES

Audit's® Realty Stock Review

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MARKET COMMENT: A LOOK AT 1985'S BIGGEST LOSERS: MANUFACTURED HOUSING STOCKS

Manufactured housing stocks look like the aftermath of Hurricane Gloria: It's so black that sooner or later someone has to turn the lights back on. The stock charts of nine majors (p. 2) show most locked into downtrends for the past two years. All but one -- **Clayton Homes** -- of the majors we cover is selling at or near its 52-week lows:

Company	-52-weeks- High	Low	Recent	% Over Low
Champion HmBd.	4.00-	1.75	1.75	0%
Clayton Homes.	12.75-	7.13	12.25	72
Fleetwood Ent.	28.75-	18.38	18.63	1
Golden West...	7.75-	3.00	3.63	21
Natl. Homes...	4.75-	2.50	3.25	30
Redman Indust.	12.38-	7.00	7.88	13
River Oaks In.	7.88-	2.50	3.00	20
Skyline Corp..	18.00-	12.75	13.25	4
Zimmer Corp...	9.38-	3.63	3.75	3

The reasons aren't hard to find:

1. An expected sales surge hasn't materialized; shipments are running at 286,000 annual rate in July, latest month reported, down 3.1% from last year's total. Early optimism that shipments might top 300,000 units for the first time since 1974 has faded.

2. Overcapacity has been endemic -- but that may be fading with bankruptcy filings by Commodore Corp. and Tidwell Indust., which had 7% of market share.

3. Intense price competition has held margins low. The average mobile home selling price has risen only 8% in total since 1981 -- less than half the inflation rate. The $21,500 average sales price in April, last month reported, is up 2.4% over 1984.

4. A Veterans Admin. probe found many manufacturers padding invoices to cover rebates to retailers, generating fines and bad publicity.

5. The threat of higher interest rates restrains enthusiasm, although we do not share the pessimism about rates.

Even diversified companies with manufactured housing operations aren't immune: **Kaufman & Broad** stock fell 11% this past week when mobile home losses hurt EPS. **U.S. Home** has been struggling with its mobile home unit.

Beyond those negatives, continuing plant closings give some hope that overcapacity and attendant price cutting will abate; how soon is the question. Despite some upward blips in stock prices here and there, investors certainly don't yet see an industry turn. The big battleground remains the South, a sprawling Census region stretching from Wilmington, Del. to El Paso, Tex.; about two-thirds of all mobiles wind up there. On page 2 we've tallied the significant numbers for major producers. Ranking Reviews begin on page 3.

RANKING REVIEW ISSUE

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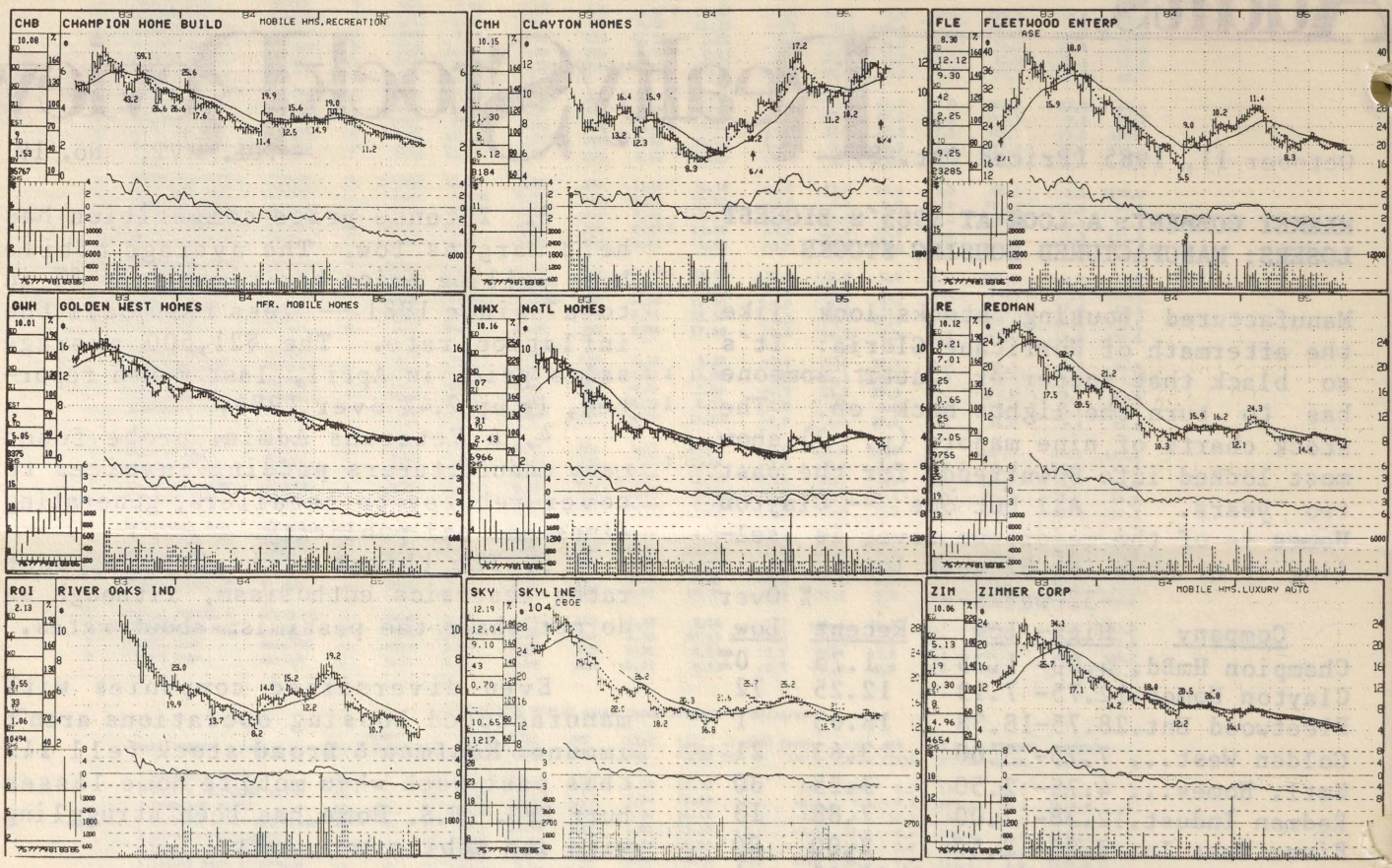

COMPANY ANALYSIS: A LOOK AT SHIPMENT TRENDS, SALES MIX AND AVERAGE PRICES

Our annual tally shows mobile home shipments by the majors generally soft. Here's a count of unit shipments in recent fiscal years, interim periods, and percentages of total sales derived from manufactured housing:

Co. & Year	Unit Sales	% Chng.	Mfg.Hsg. Sales %
Champion-Feb.'85	18,671	-15%	83%
Clayton Hm.June'85.	8,070a	+27	100a
Fleetwood-Apr.'85	37,593	- 8	39
Kauf.&Bd.-Nov.'84	7,428	- 1	20
Nat. Homes-Dec.'84.	7,091	+ 4	78
Redman-Mar.'85	15,912	+ 3	69
River Oaks-June'85.	6,746	+32	NA
Skyline-May'85	14,870	-12	68
U.S.Home-Dec.'84	8,431	- 4	13

a-Incl. 60% (4,842 DU) retail sales.

Interim shipments are:

Champion.6 mo.Aug.	9,401	-13%
Clayton-3 mo.Sept.	2,526	+29
Fleetwood-3 mo.Jul.	10,252	- 3
Kauf.&Bd.-6 mo.May.	2,552	-29
Nat.Homes-6 mo.June.	3,200	+ 1
U.S. Home-6 mo.June.	4,310	+ 5

Average selling prices are under pressure, as noted, and vary with mixes of single-wides and double-wides plus regional preferences. Our tally:

Co. & Year	Avg.Sale Price	% Chng.	% Dbl. Wides
Champion-Feb.'85	$15,735	+15%	34%
Clayton-June'85	11,993b	+ 2	NA
Fleetwd-Apr.'85	13,193	+ 5	36
Kauf.&Bd.-Nov.'84.	15,913	- 1	37
Nat. Hm.-Dec.'84	7,730	+ 1	NM
Redman-Mar.'85	14,675	- 3	NA
Skyline-May'85	14,916	+0.2	24
U.S.Home-Dec.'84	16,532	+ 5	44

b-Wholesale price only.

Since some of these companies are reporting losses or marginal profits, one approach to selection is to relate market price to the dollar sales (instead of earnings) per share, or a PSR Ratio. Here are PSR ratios now compared to Aug. '84, when last we looked:

SRs:	8/84	10/85		8/84	10/85
Champion.	0.35	0.18	Nat.Hm.	0.36	0.32
Clayton..	NA	0.85	Redman.	0.27	0.23
Fleetwd.	0.34	0.35	River O.	0.64	0.28
Gold.Ws.	0.38	0.21	Skyline.	0.41	0.46

CURRENT DATA ON MANUFACTURED HOUSING STOCKS

RANK		EXCH/ SYMBOL	GROUP	SHARE (000)	BOOK VALUE	ANN DIV	-EARNINGS-- MON	12 MO	LAST PRICE	% CHANGE FROM- SEP 24	JAN 1	P/E RATIO	ANN YIELD	% PR TO BK	RETURN ON BK	MKT VA (MIL$)
C	CHAMPION HOME	AS-CHB	11	35767	1.56	0.00	AUG	0.07	1.75	-22.2	-46.2	25.0	0.0	112.2	4.5	62.6
B	CLAYTON HOMES	NY-CMH	11	8184	4.97	0.00	JUN	0.87	12.25	10.1	15.6	14.1	0.0	246.5	17.5	100.3
A	FLEETWOOD ENTER	NY-FLE	11	23285	11.51	0.44	JUL	2.14	18.63 X	-3.3	-29.4	8.7	2.4	161.9	18.6	433.8
D	GOLDEN WEST HMS	AS-GWH	11	3375	2.29	0.00	AUG	-2.62	3.63	11.7	-27.4	0.0	0.0	158.5	-114.4	12.3
D	NATIONAL HOMES	NY-NHX	11	6904	2.41	0.00	JUN	-0.61	3.25	-3.8	18.2	0.0	0.0	134.9	-25.3	22.4
B	REDMAN INDUST	NY-RE	11	9755	7.21	0.30	JUN	0.53	7.88 X	11.6	-19.2	14.9	3.8	109.3	7.4	76.9
C	RIVER OAKS INDS	NY-ROI	11	10494	1.33	0.00	JUN	0.17	3.00	9.1	-50.0	17.6	0.0	225.6	12.8	31.5
B	SKYLINE CORP	NY-SKY	11	11217	11.02	0.48	AUG	0.80	13.25	-1.9	-17.2	16.6	3.6	120.2	7.3	148.6
C	VYQUEST INC	AS-VY	11	3838	6.70	0.00	MAY	0.80	6.50	0.0	26.7	8.1	0.0	97.0	11.9	24.9
B	ZIMMER CORP	AS-ZIM	11	4654	4.52	0.00	JUN	-0.75	3.75	-9.2	-50.0	0.0	0.0	83.0	-16.6	17.5

RANKING REVIEWS: MAJOR INDEPENDENTS HOLD RANKS IN FACE OF SOGGY RESULTS

Champion Home Builders Co. holds C Rank even though results have fallen so far this fiscal year.

EPS/Dividends - C: EPS fell 10% to 19¢ sh. in CHB's fiscal year ending Mar. 1, 1985, reflecting higher operating income on a 2% housing volume decline. Losses on real estate and other operations dragged overall EPS down. EPS fell 69% to 5¢ in the 26 weeks to Aug. 30, on a 12% sales decline. Sales of higher-margined double-wides are strong however; CHB boosted double-wide sales from 27% to 34% of housing sales in 1985, and thus jumped average selling prices 15%, best of the group. CHB owns 36 retail centers which generated 9% of sales. No dividends are paid.

Financial Measures - C: Long-term debt is a low 0.15 of equity, and liquidity is good; trade accounts receivables turn an average of 15 days.

Exposure - C: CHB continues to try to upgrade selling image by owning retail centers handling only company products. It also develops and manages manufactured housing communities.

Clayton Homes holds B Rank on another strong sales and EPS year.

EPS/Dividends - B: Growth continues strong and Clayton earned 87¢ (adjusted for a Sept. 5-for-4 split) in its June fiscal year, up 30%. Revenues rose 34%. CMH builds mobile homes at seven plants, all in Tenn., and manufactured 5,558 homes in 1985, up 24%. About 42% of units were sold thru company-owned outlets and the rest sold to other dealers. Sales are picking up partly because General Motors picked Tenn. for its Saturn plant. CMH also retails for other manufacturers thru 85 company owned retail centers, which sold a total 4,842 units, up 38%. CMH bought two plants with 231,000 sq. ft. from Norris Indust. for $2.7 mil., and bought 40 retail centers from Mobile Home Industries for $1.9 mil. in 1985.

Financial Measures - B: Long term debt is 0.11 times shareholders' equity of $40.7 mil. or $4.97/sh. $4.3 mil. taxes were deferred under installment accounting. Liquidity is good.

Exposure - B: CMH has strong operating control in a tough industry.

Fleetwood Enterprises Inc. keeps A Rank even though EPS declined.

EPS/Dividend - A: EPS fell 16% to $2.29/sh. in FLE's Apr. 1985 year, largely because a 38% rise in manufactured housing operating profits wasn't enough to offset a 32% drop in recreational vehicles (RVs) operating profits. Manufactured housing sales fell 4% on an 8% volume decline; FLE remains the largest U.S. manufactured housing producer. With about 61% reliance upon RVs, FLE's EPS are fairly volatile over time. July qtr. EPS fell 23% to 51¢; manufactured housing sales fell 6% and RVs 11%. FLE has a long history of dividend increases and boosted payout to a 44¢ annual rate in Aug.

Financial Measures - A: FLE has no long-term debt and is perhaps the industry's most liquid company; cash and equivalents are $5.81/sh.

Exposure - A: FLE dominates its product lines by price and quality.

Golden West Homes falls to D Rank.

EPS/Dividends - D: GWH's May 1985 year was the year of the big bath: a $2.76/sh. overall loss that reflected closing of two plants (15¢); disposition of retail sales centers (75¢); write-down of investments in three manufactured housing communities (24¢). EPS revived to a 5¢ profit in the Aug. qtr.,

v. a loss; GWH remains hurt by overcapacity and competitive pricing in Calif. and Western markets.

Financial Measures - D: Debt is 1.0 times equity of $7.7 mil. ($2.29/sh.), one of the group's highest ratios. A $4.7 mil. long-term debt placement in Aug. reduced revolving bank credit.

Exposure - D: GWH's move into modular homes hasn't turned profits yet.

National Homes Corp. stays at D Rank but is a candiate for C Rank.

EPS/Dividends - D: NHX lost 48¢ sh. in 1984 (37¢ from operations) and hasn't turned an operating profit for five years. Red ink continued with a 2¢ loss in the 6 mon. to June, altho NHX earned 12¢ in June, up 140%. NHX makes panelized home and apartment units which are sold to builder-dealers. In June NHX joined with Forum Group, Indianapolis based operator of retirement living centers, nursing homes and long-term care facilities under which NHX could produce about $45 mil. of construction over 24 months thru 1987, or about 32% addition to NHX's $70 mil. annual sales.

Financial Measures - C: Forum Group bought $10 mil. NHX preferred; provided $5 mil. revolving credit; and bought 2.5 mil. NHX wts. (exercisable at $4 thru Dec. 1993). Liquidity is thus improved.

Exposure - C: The Forum Group deal should reduce market exposure.

Redman Industries Inc. holds B.

EPS/Dividend - C: EPS fell 33% to 52¢ in RE's Mar. 29 fiscal year. Severe manufactured housing and building products pricing plus write-down of a receivable from an insolvent manufactured housing community cost 14¢. EPS rebounded to 24¢ in the June qtr., up 4%. RE market share is improving although building products sales to weak Texas housing markets still hurt results.

Financial Measures - A: Long-term debt of $14 mil. is 0.2 times equity of $70 mil. ($7.21/sh). Liquidity is good.

River Oaks Industries Inc. stays at C Rank. EPS/Dividends - C: EPS fell 59% to 17¢ sh. in ROI's June fiscal year; the June qtr. was red by 4¢. Start-up costs for two new plants and integration of new retail sales centers (obtained when Adventure Homes was acquired in Jan.) hurt. Inventory shipped to these sales centers couldn't yet be counted as sales. Alabama-based ROI expects profits in the Sept. qtr.

Financial Measures - C: Debt of $34 mil. is 2.0 times equity; some debt relates to mobile home communities ROI sponsors and manages.

Skyline Corp. holds B Rank.

EPS/Dividends - B: SKY netted 71¢ sh. in its May fiscal year, down 3%. EPS have been fairly flat the past five years, showing neither growth or the volatility of other group members. EPS rose 50% to 27¢ in the Aug. qtr. on a 7.5% sales decline, reflecting cost-cutting. SKY moved into lower-priced markets during 1985 and average sale price fell 12%. Dividends are 48¢.

Financial Measures - A: SKY has no debt and remains extremely liquid as a defensive measure. Cash and equivalents equal $8.17/sh. and book value is $11.02/sh. Current assets are 5.3 times liabilities, best industry ratio.

COMPARATIVE REALTY STOCK GROUP AVERAGE 10/08/85

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANN DIV	EARN ANN	LAST PRICE	-% CHNG FROM-- SEP 24	JAN 1	P/E RATIO	ANN YIELD	% PR TO BK	RETURN ON BK	MARKET VALUE
1 PROPERTY REITS	32	6	38	5047	11.25	1.25	1.18	15.20	0.0	5.1	12.9	8.3	135.1	10.5	3017.9
2 PROP & MTG COMB REITS	16	2	18	4906	13.40	1.61	2.04	16.79	-2.4	-9.2	8.2	9.6	125.3	15.2	1591.5
3 MORTGAGE REITS	13	3	16	6096	14.56	1.50	2.34	14.54	0.5	-2.2	6.2	10.3	99.9	16.1	1374.1
4 PARTICIPATING MTG REITS	11	1	12	7961	12.50	1.17	1.12	13.16	-0.2	-2.6	11.7	8.9	105.3	9.0	1324.7
5 MAJOR HOMEBUILDERS	8	2	10	14260	11.50	0.30	1.40	14.39	-0.9	-4.9	10.3	2.1	125.1	12.2	1763.8
6 OTHER BLDRS/DEVELOPERS	9	24	33	4880	6.80	0.08	0.23	8.73	0.9	17.3	38.1	0.9	128.5	3.4	1421.1
7 INCOME PROP BLDR/OWNR	13	8	21	6124	8.86	0.55	0.79	15.19	0.0	4.0	19.3	3.6	171.4	8.9	2398.4
8 MORTGAGE BANKER/FINANCE	7	6	13	10143	9.65	0.68	0.21	12.85	-0.8	9.7	60.3	5.3	133.1	2.2	2369.4
9 DIVERSFIED RLTY&HOLDING	13	9	22	18478	13.27	0.26	0.98	18.10	-1.0	18.1	18.5	1.5	136.4	7.4	10846.0
10 RLTY SVCS/SYNDICATOR	5	2	7	6780	6.06	0.12	0.66	9.27	-5.3	8.8	14.0	1.2	153.0	10.9	406.0
11 MANUFACTURED HOUSING	3	7	10	11747	5.35	0.12	0.14	7.39	0.9	-20.0	52.8	1.7	138.1	2.6	930.8
P PREFERRED STOCKS			3	2596	8.83	0.80	0.00	11.46	0.4	14.1	NC	7.0	129.7	NC	83.9
L LIQUIDATING COS			4	6900	10.55	5.17	14.76	7.72	-2.0	-28.4	NC	NC	73.2	NC	137.6
OVERALL AVERAGE			207	8043	10.45	0.74	1.00	13.62	-0.5	3.7	13.6	5.4	130.4	9.6	27665.2
DOW JONES INDUSTRIALS							102.26	1325.49	0.3	9.4	13.0	4.7			
STANDARD & POOR'S 500							15.74	181.87	-0.3	8.7	11.6	4.4			
DOW JONES UTILITIES							18.74	153.57	0.6	2.7	8.2	9.2			

NOTE: LIQUIDATING COMPANIES AND PREFERRED STOCKS INCLUDED ONLY IN COMPANY AND MARKET VALUE AGGREGATES; NOT INCLUDED IN OVERALL AVERAGES.